

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**SB 500**

April 10, 2017

**SUMMARY OF BILL:** Removes the requirement that a student meet one of the following criteria in order to be eligible for an individualized education account (IEA): (1) be enrolled in a public school for two semesters immediately preceding the semester in which the student is to receive an IEA, (2) is a first time Tennessee public school student, or (3) received an IEA in the previous school year.

**ESTIMATED FISCAL IMPACT:**

**Increase State Revenue –**

**\$77,800/FY18-19/Department of Education**

**\$81,700/FY19-20/Department of Education**

**\$85,800/FY20-21/Department of Education**

**Exceeds \$85,800 /FY21-22 and Subsequent Years/Department of Education**

**Increase Local Expenditures – Exceeds \$583,500/FY18-19\***

**Other Fiscal Impact – For local education agencies (LEAs) with students that opt to participate in the IEA program, the net shift of state and required local BEP funding from these local education agencies to the participating entities is estimated as follows: \$1,867,300 in FY18-19; \$1,961,600 in FY19-20; \$2,059,400 in FY20-21; and amounts exceeding \$2,059,400 in FY21-22 and subsequent years.**

Assumptions relative to Local Expenditures and BEP transfer:

- Though the exact number of additional participating students is unknown, it is reasonably estimated that a minimum of 281 additional students will participate beginning in FY18-19 as a result of the legislation. This is equivalent to at least one percent of the total eligible population of 28,135 as projected by the DOE
- The number of participating students is estimated to grow by 2.5 percent per year.
- In order to participate in the IEA program, the student must have an Individualized Education Plan (IEP).
- To receive an IEP, the student must be enrolled in school at least 60 calendar days.

- For the purposes of this fiscal note, it is assumed that the student should be weighted a maximum of 70 percent for the purposes of calculating the Average Daily Membership (ADM), which drives the BEP funding formula; therefore, in FY18-19, for students leaving an LEA and instead pursuing an IEA, a maximum of 70 percent of the funding for that student is assumed to be covered by the BEP, and a minimum of 30 percent will be covered by LEAs where the requisite students studied before entering the IEA program.
- The state and local Per Pupil Expenditures (PPE), which make up the scholarships for each student is currently \$6,922.
- The PPE is estimate to increase by 2.5 percent per year.
- In FY18-19, and given the assumption the requisite students are weighted at a maximum of 70 percent for the purpose of calculating the ADM, the mandatory one-time increase in local government expenditures is estimated to exceed \$583,525 (\$6,922 x 281 students x minimum 30.0%) in FY18-19.

#### Assumptions relative to BEP Transfer and State Revenue

- The number of participating students is estimated to increase by 2.5 percent per year.
- The required state and local Basic Education Program (BEP) expenditures are utilized as the funding source with an estimated PPE funding growth of 2.5 percent annually.
- Statewide Program Student Enrollment Estimates:
  - In FY18-19, an estimated 281 students will participate.
  - In FY19-20, an estimated 288 students will participate.
  - In FY20-21, an estimated 295 students will participate.
  - In FY21-22 and subsequent years, more than 295 students will participate.
- Total Statewide Program Estimates (Gross):
  - In FY18-19, an estimated \$1,945,082 (\$6,922 x 281 students) will shift from LEAs to participating schools.
  - In FY19-20, an estimated \$2,043,360 (\$7,095 x 288 students) will shift from LEAs to participating schools.
  - In FY20-21, an estimated \$2,145,240 (\$7,272 x 295 students) will shift from LEAs to participating schools.
  - In FY21-22 and subsequent years, an amount estimated to exceed \$2,145,240 will shift from LEAs to participating schools.
- Pursuant to Tenn. Code Ann. § 49-10-1405(b), the DOE will retain a four percent administrative fee from BEP funds otherwise shifting to participating schools as a result of additional students participating in the IEA program beginning in FY18-19.
- The increase in state administrative fee revenue to the DOE for IEA administration is estimated in the table below.

State Admin Fee	FY18-19	FY19-20	FY20-21
4%	\$77,803	\$81,734	\$85,810

- The increase in state revenue to the DOE is estimated to exceed \$85,810 in FY21-22 and subsequent years.

- Total Statewide Program Estimates (Net):
  - In FY18-19, an estimated \$1,867,279 (\$1,945,082 - \$77,803) will shift from LEAs to participating schools.
  - In FY19-20, an estimated \$1,961,626 (\$2,043,360 - \$81,734) will shift from LEAs to participating schools.
  - In FY20-21, an estimated \$2,059,430 (\$2,145,240 – \$85,810) will shift from LEAs to participating schools.
  - In FY21-22 and subsequent years, an amount estimated to exceed \$2,059,430 will shift from LEAs to participating schools.

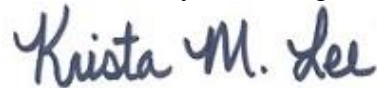
Assumptions relative to LEA fund retention:

- The BEP maintenance of effort requires that local government continue to fund their LEA at the same level year-to-year unless there is a decrease in enrollment.
- Participating students will continue to be counted in LEA enrollment numbers, and LEAs will be required to continue providing funding based on the enrollment numbers that include participating students.
- A majority of LEAs are currently funding students above and beyond the BEP local match requirement. This amount varies widely by LEA, but according to DOE, the average amount that LEAs will retain in FY17-18 is \$1,279 per pupil. This amount is estimated to increase at an average growth rate of 2.5 percent annually in each subsequent year.
- LEAs adjust expenditures, teachers, facilities, and other items to meet the change in student population each year.
- LEAs will be able to use retained funding to offset any increase in local government expenditures or to use at their discretion for some other purpose.

*\*Article II, Section 24 of the Tennessee Constitution provides that: no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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